



JOE MOROLONG
LOCAL MUNICIPALITY

JOE MOROLONG LOCAL MUNICIPALITY
Formerly Moshaweng Local Municipality
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

Joe Morolong Local Municipality

Formerly Moshaweng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality	
Demarcation code	NC 451	
Municipal Council Members		
Mayor	Cllr. K.E. Molete	
Speaker	Cllr. M.R. Maneng	
Chief Whip	Cllr. E.O.T. Leshope	
Executive Members	Cllr. B.M. Mbolekwa Cllr. M.D. Moremi Cllr. N. Selebalo	
Party Representatives	Cllr. K.J. Masiapoa Cllr. J. Freedman Cllr. V. Jordan Cllr. T.P. Tshipo Cllr. M.C. Tihelo Cllr. M.M. Nhlapo Cllr. T.M. Mokgoje Cllr. M.S. Nkgobang	
Ward Councillors	Cllr. O.N. Mokweni Cllr. O.I. Kaotsane Cllr. I.S. Ortel Cllr. R.M. Shuping Cllr. S.J. Matshidiso Cllr. M.G. Sephekolo Cllr. K.J. Modise Cllr. M.E. Mmolawa Cllr. G.G. Moriri Cllr. D.C. Kubang Cllr. S.P. Segatsho Cllr. O.S. Moagi Cllr. O.H. Kgopodithata Cllr. D.S. Josop Cllr. K.T. Teteme	Ward 01 Ward 02 Ward 03 Ward 04 Ward 05 Ward 06 Ward 07 Ward 08 Ward 09 Ward 10 Ward 11 Ward 12 Ward 13 Ward 14 Ward 15
Council Committees		
<i>Finance and Infrastructure development plan</i>		
Chairperson:	Cllr. K.E. Molete	
Committee Members:	Cllr. O.H. Kgopodithata Cllr. I.S. Ortel Cllr. K.J. Masiapoa Cllr. M.M. Nhlapo	
<i>Planning and Development</i>		
Chairperson:	Cllr. E.O.T. Leshope	
Committee Members:	Cllr. M.E. Mmolawa Cllr. S.P. Segatsho Cllr. T.M. Mokgoje Cllr. M.S. Nkgobang	

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General Information

Infrastructure

Chairperson:	Cllr. B.M. Mbolekwa
Committee Members:	Cllr. D.S. Josop Cllr. M.C. Tihelo Cllr. T.P. Tshipo Cllr. K.J. Modise

Community Service

Chairperson:	Cllr. N. Selebalo
Committee Members:	Cllr. J. Freedman Cllr. S.J. Matshidiso Cllr. O.S. Moagi Cllr. D.C. Kubang Cllr. M.G. Sephekolo

Human Recourse and Administration

Chairperson:	Cllr. M.D. Moremi
Committee Members:	Cllr. O.I. Kaotsane Cllr. O.N. Mokweni Cllr. K.T. Teteme Cllr. V. Jordan Cllr. R.M. Shuping

Grading of local authority	Low Capacity Municipality
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Municipal Manager	Mr. T.M. Bloom
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Chief Finance Officer (CFO)	Mrs. B.D. Motlhaping
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Business address	D320 Cardington Road Churchill Village 8474
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Postal address	Private Bag X 117 Mothibistad 8474
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Bankers	ABSA Bank Limited
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Auditors	Auditor General South Africa
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Telephone number	(053) 773 9300
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Fax number	(053) 773 9350
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Email address	tshepo.bloom@webmail.co.za
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Web address	www.joemorolong.gov.za
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Abbreviations

ASB	Accounting Standards Board
D.W.A.F.	Department of Water Affairs and Forestry
DBSA	Development Bank of South Africa
ES	Equitable Share
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
HDF	Housing Development Fund
IDP	Infrastructure Development Plan
INEP	Integrated National Electrification Programme
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Government Sector Education Training Programme
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WSOG	Water Services Operating Subsidy Grant

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended 30 June 2012

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

2. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

3. Accounting Officer's interest in contracts

The account officer has no interest in contracts awarded.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr. T.M. Bloom

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The salient features of the municipality's adoption of the Code is outlined below:

Chair person and chief executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Joe Morolong Local Municipality

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Accounting Officer's Report

7. Bankers

The municipality's primary bank accounts are with ABSA Bank Limited, and will continue to bank with them in the new financial year.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

The annual financial statements set out on pages 4 to 51, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2012.

Mr. T.M. Bloom
Municipal Manager (Accounting Officer)
Joe Morolong Local Municipality
31 October 2012

Joe Morolong Local Municipality

Formerly Moshaweng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures to the nearest R1	Notes	2012	2011
Assets			
Current Assets			
Inventories	7	1,164,975	1,228,940
VAT receivable	8	13,598,570	12,225,978
Receivables from exchange transactions	9	10,582,963	-
Consumer debtors	11	15,368,065	3,899,133
Cash and cash equivalents	12	14,337,108	19,926,937
Total Current Assets		55,051,681	37,280,988
Non-Current Assets			
Property, plant and equipment	3	609,949,461	677,579,366
Intangible assets	4	27,945	18,019
Investments	5	361,731	343,569
Total Non-Current Assets		610,339,137	677,940,954
Total Assets		665,390,818	715,221,942
Liabilities			
Current Liabilities			
Bank overdraft	12	-	5,553,273
Other financial liabilities	13	559,238	277,451
Unspent conditional grants and receipts	15	28,394,697	23,526,991
Payables from exchange transactions	17	94,966,307	12,552,410
Provisions	16	4,419,063	3,441,015
Total Current Liabilities		128,339,305	45,351,140
Non-Current Liabilities			
Other financial liabilities	13	2,603,010	3,146,534
Total Liabilities		130,942,315	48,497,674
Net Assets		534,448,503	666,724,268
Net Assets			
Accumulated surplus		534,448,503	666,724,268

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Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures to the nearest R1	Notes	2012	2011
Revenue			
Property rates	20	3,116,338	-
Service charges	21	12,648,054	-
Government grants and subsidies	22	125,049,891	98,228,760
Other income	24	23,451,411	298,073
Interest received - investment	30	1,303,220	893,107
Rental of facilities and equipment	35	37,015	-
Public contributions and donations		-	78,500
Total Revenue		165,605,929	99,498,440
Expenditure			
Personnel cost	26	36,562,956	22,897,300
Remuneration of councillors	27	9,283,987	4,834,018
Administration	28	2,121	-
Depreciation and amortisation	31	67,953,833	67,923,726
Impairment loss	32	121,780	-
Debt impairment	29	56,089,223	-
Repairs and maintenance		5,357,250	5,298,002
General expenses	25	39,245,808	19,219,017
Finance costs	33	1,420,951	467,133
Grants and subsidies paid	36	75,523,999	31,234,656
Bulk purchases	37	6,319,789	-
Total Expenditure		258,635,889	132,654,835
Deficit for the year		(93,029,960)	(33,156,395)

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

Figures to the nearest R1	Accumulated surplus	Total net assets
Balance at 01 July 2010	719,099,680	719,099,680
Changes in net assets		
Surplus for the year	(52,375,412)	(52,375,412)
Total changes	(52,375,412)	(52,375,412)
Balance at 01 July 2011	666,724,271	666,724,271
Changes in net assets		
Surplus for the year	(132,275,768)	(132,275,768)
Total changes	(132,275,768)	(132,275,768)
Balance at 30 June 2012	534,448,503	534,448,503

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended 30 June 2012

Cash Flow Statement

Figures to the nearest R1	Notes	2012	2011
Cash flows from operating activities			
Receipts			
Grants		125,049,891	101,746,102
Interest income		1,303,220	893,107
Consumers and other receipts		39,252,818	451,684
		165,605,929	103,090,893
Payments			
Suppliers and employees		(172,293,789)	(89,183,066)
Finance costs		(1,420,951)	(467,132)
		(173,714,740)	(89,650,198)
Net cash flows from operating activities	38	(8,108,811)	13,440,695
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	3	(443,251)	(20,311,129)
Purchase of other intangible assets	4	(12,435)	(24,550)
Increase in investments		(18,162)	(16,519)
Net cash flows from investing activities		(473,848)	(20,352,198)
Cash flows from financing activities			
Repayment of other financial liabilities		(261,737)	(1,330,300)
Other cash item		8,807,840	-
Net cash flows from financing activities		8,546,103	(1,330,300)
Net increase/(decrease) in cash and cash equivalents		(36,556)	(8,241,803)
Cash and cash equivalents at the beginning of the year		14,373,664	22,615,467
Cash and cash equivalents at the end of the year	12	14,337,108	14,373,664

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) in accordance with section 122(3) of the Municipal Finance Management Act, (Act Nr. 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by GRAP reporting framework, have been developed in accordance with paragraph 8, 10 and 11 of GRAP 3, and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, except where an exemption or transitional provision has been granted, are disclosed below.

These accounting policies are consistent with the previous year.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory), GRAP 102 (Intangible Assets), GRAP 26 (Impairment of cash generating assets) and GRAP 21 (Impairment of Non Cash Generating Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets and the net realisable value for inventories involves significant judgement by management.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions. Non-current provisions are discounted where the effect of discounting is material using actuarial valuations.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values

The municipality reassesses the useful lives and residual values of property, plant and equipment, investment property and intangible assets on an annual basis. In reassessing the useful lives and residual values of property, plant and equipment, investment property and intangible assets management considers the condition and use of the individual assets, and base it on industry knowledge, to determine the remaining period over which the asset can and will be used and the residual value.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Deferred payment terms

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rates and periods used.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost, being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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Accounting Policies

1.2 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality.

Depreciation only commences when the asset is ready for its intended use. The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
• Improvements	25-30
Plant and machinery	
• Specialist plant and equipment	10-15
• Other plant and equipment	2-15
Furniture and fixtures	
• Office equipment	3-15
• Furniture and Fittings	5-15
Motor vehicles	
• Specialist vehicles	10-15
• Other vehicles	5-15
Infrastructure	
• Roads and paving	10-100
• Pedestrian malls	15-30
• Electricity	15-60
• Water	15-100
• Sewerage	15-60
Community	
• Community facilities	25-30
• Recreational facilities	15-30

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Accounting Policies

1.2 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

Incomplete construction work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance leases

Assets capitalised under finance leases are depreciated on their expected useful lives on the same basis as property, plant and equipment controlled by the municipality or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Infrastructure assets

Infrastructure assets are assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. When an intangible asset is acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.3 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Capitalised development costs are recorded as intangible assets and recognised from the point at which the asset is ready for use on a straight line basis over its useful life, which is between 3 and 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period. However, such intangible assets are subject to an annual impairment test.

Development assets are tested for impairment annually in accordance with GRAP 102. The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

1.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Joe Morolong Local Municipality

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Accounting Policies

1.4 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Loans and receivables
Cash and cash equivalents

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Long term liabilities
Trade and other payables
Consumer deposits

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality does not offset a financial asset and a financial liability unless a legal enforcement right to set off the recognised amounts currently exists and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Fair value and assumptions

The fair value of financial instruments are determined as follow:

- The fair value of quoted investments are based on current bid prices.
- If the market for a financial asset or liability is not active, the municipality establishes fair values by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.4 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

Financial assets

Held-to-maturity investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with interest recognised on an effective yield basis.

Financial assets at fair value are initially and subsequently, at the end of each financial year, measured at fair value with the gain or loss being recognised in the statement of financial performance.

Available-for-sale assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

Financial liabilities held at amortised cost are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Financial guarantee contracts

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due. Financial guarantee contract liabilities are initially measured at fair value. The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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1.4 Financial instruments (continued)

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from net assets and recognised in the statement of financial performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in statement of financial performance. Impairment losses recognised in the statement of financial performance for an investment in an equity instrument classified as available-for-sale are not reversed through the statement of financial performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the statement of financial performance, the impairment loss must be reversed, with the amount of the reversal recognised in the statement of financial performance.

Financial Assets carried at amortised cost

Accounts receivable encompass long-term debtors, consumer debtors and other debtors.

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

An allowance for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to shortterm receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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Accounting Policies

1.4 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the statement of financial performance.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

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1.5 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.6 Inventories

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

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Accounting Policies

1.6 Inventories (continued)

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Other Arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any writedown of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.7 VAT receivable

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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1.8 Impairment of cash-generating assets (continued)

Identification

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of a cash-generating asset is the higher of its fair value less costs to sell and its value in use.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

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1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined. The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

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1.11 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the statement of financial position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all medical aid funds, with which the municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Provincially-administered defined benefit plans

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The municipality contributes to various national and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the projected unit credit method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Defined benefit pension plans

The municipality has an obligation to provide post-retirement pension benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Other post retirement obligations

Long-service Allowance

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

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1.12 Provisions and contingencies (continued)

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Provisions for restructuring costs

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- The business or part of a business concerned;
- The principal locations affected;
- The location, function, and approximate number of employees who will be compensated for terminating their services;
- The expenditures that will be undertaken; and
- When the plan will be implemented.

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provision for environmental rehabilitation of landfill sites

The municipality provides for the rehabilitation of the landfill site based on a provision done by professional assessors.

Contingencies

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the annual financial statements.

Contingencies are disclosed in note 42.

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1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Service charges

Service charges are levied in terms of approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by council, and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Prepaid electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made seven days before year-end are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

Revenue from agency services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

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Sale of goods (including houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.14 Revenue from non-exchange transactions

Non exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, without giving approximately equal value to another entity in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time-proportionate basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Other donations and contributions

Other donations and contributions are generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

1.15 Borrowing costs

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the statement of financial performance in accordance with the requirements of GRAP 5 and Accounting Standards Board Directive 3.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established – the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use have been completed.

Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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Accounting Policies

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Going concern

The annual financial statements have been prepared on the going concern basis.

1.21 Presentation of currency

These annual financial statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency. No foreign exchange transactions are included in the statements.

1.22 Risk management

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

1.23 Comparative information

Where the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

1.25 Budget information

The municipality are subject to budgetary limits in the form of appropriations or budget authorisations, which is given effect through authorising legislation, appropriation or similar.

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Accounting Policies

1.25 Budget information (continued)

A statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting.

1.26 Government grants and receipts

Government grants and receipts are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance.

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.27 Value added Tax (VAT)

The municipality accounts for value added tax on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services except where the suppliers are specifically zero rated in terms of section 11, exempt in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The municipality accounts for VAT on a monthly basis.

1.28 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in notes to the annual financial statements.

1.29 Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

1.30 Commitments

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

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Accounting Policies

- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

1.31 Change on accounting policies estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

1.32 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The municipality regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed

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Notes to the Annual Financial Statements

Figures to the nearest R1

2012

2011

2. New standards and interpretations

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The impact of the amendment is not material.

2.1 Standards and interpretations issued, but not yet effective

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	No material impact
• GRAP 25: Employee benefits	01 April 2013	No material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	No material impact
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	No material impact
• GRAP 107: Mergers	01 April 2014	No material impact
• GRAP 20: Related parties	01 April 2013	No material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	No material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	No material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	No material impact

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2. New standards and interpretations (continued)

• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014	No material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	No material impact
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	No material impact
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	No material impact
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013	No material impact
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	No material impact
• GRAP 12 (as revised 2012): Inventories	01 April 2013	No material impact
• GRAP 13 (as revised 2012): Leases	01 April 2013	No material impact
• GRAP 16 (as revised 2012): Investment Property	01 April 2013	No material impact
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	No material impact
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	No material impact
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	No material impact
• IGRAP16: Intangible assets website costs	01 April 2013	No material impact

The municipality has not early adopted the following standards and interpretations, which have been issued but are not yet effective;

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements

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3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,297,475	(121,780)	2,175,695	2,297,529	-	2,297,529
Motor vehicles	7,113,626	(5,078,301)	2,035,325	7,113,626	(3,926,735)	3,186,891
Office equipment	2,131,501	(1,492,568)	638,933	2,086,195	(1,124,289)	961,906
Computer equipment	1,507,736	(1,393,860)	113,876	1,354,791	(990,631)	364,160
Community assets	102,276,802	-	102,276,802	102,276,802	-	102,276,802
Roads	1,095,969,232	(635,478,758)	460,490,474	1,095,969,232	(572,914,184)	523,055,048
Other infrastructure assets	10,777	(2,874)	7,903	10,777	(2,634)	8,143
Road furniture and equipment	14,736,311	(3,463,777)	11,272,534	14,736,311	(3,051,115)	11,685,196
Wastewater network	57,372,879	(27,143,741)	30,229,138	57,372,879	(24,509,403)	32,863,476
Water reticulation	328,696	(206,697)	121,999	328,696	(167,676)	161,020
Other property, plant and equipment	2,130,094	(1,543,312)	586,782	1,885,094	(1,165,899)	719,195
Total	1,285,875,129	(675,925,668)	609,949,461	1,285,431,932	(607,852,566)	677,579,366

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Notes to the Annual Financial Statements

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	2,297,529	-	(121,834)	2,175,695
Motor vehicles	3,186,891	-	(1,151,566)	2,035,325
Office equipment	961,906	45,306	(368,279)	638,933
Computer equipment	364,160	152,945	(403,229)	113,876
Community assets	102,276,802	-	-	102,276,802
Roads	523,055,048	-	(62,564,574)	460,490,474
Other infrastructure assets	8,143	-	(240)	7,903
Road furniture and equipment	11,685,196	-	(412,662)	11,272,534
Boreholes and water machinery	32,863,476	-	(2,634,338)	30,229,138
Water reticulation	161,020	-	(39,021)	121,999
Other property, plant and equipment	719,195	245,000	(377,413)	586,782
	677,579,366	443,251	(68,073,156)	609,949,461

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Revaluations	Depreciation	Total
Land	1,079,669	-	1,217,860	-	2,297,529
Motor vehicles	2,712,657	1,625,801	-	(1,151,567)	3,186,891
Office equipment	1,278,884	42,858	-	(359,836)	961,906
Computer equipment	680,860	56,180	-	(372,880)	364,160
Community assets	102,276,802	-	-	-	102,276,802
Roads	585,619,622	-	-	(62,564,574)	523,055,048
Other infrastructure assets	8,382	-	-	(239)	8,143
Road furniture and equipment	12,097,858	-	-	(412,662)	11,685,196
Boreholes and water machinery	35,497,814	-	-	(2,634,338)	32,863,476
Water reticulation	200,042	-	-	(39,022)	161,020
Other property, plant and equipment	1,097,330	3,371	-	(381,506)	719,195
	742,549,920	1,728,210	1,217,860	(67,916,624)	677,579,366

Pledged as security

The municipality did not pledge any of its assets as security.

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

The carrying amount of property, plant and equipment does not materially differ to the fair value of the disclosed property, plant and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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2012

2011

4. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	37,859	(9,914)	27,945	25,425	(7,406)	18,019

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	18,019	12,435	(2,509)	27,945

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	571	24,550	(7,102)	18,019

Pledged as security

All intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the intangible assets of the municipality.

Refer to Appendix B for more details on intangible assets.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Investments

Fixed Deposits

ABSA Bank Limited - Acc Nr: 20-6360-4388

361,731

343,569

Fixed Deposits are investments with a maturity period of more than 12 months.

The investment attracts an interest of 4.52 % per annum. (2011 - 5.36 %)

Non-current assets

Investments

361,731

343,569

6. Operating lease asset (accrual)

Operating leases relate to property owned by the municipality with lease terms of between 3 to 10 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew.

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for property, plant and equipment, which are receivable as:

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Figures to the nearest R1	2012	2011
7. Inventories		
Consumables	1,164,975	1,228,940
8. VAT receivable		
VAT	13,598,570	12,225,978
9. Receivables from exchange transactions		
Employee costs in advance	4,654,028	-
Other debtors	5,928,935	-
	10,582,963	-
10. Other receivables from non-exchange transactions		
11. Consumer debtors		
Gross balances		
Rates	2,682,205	30,022
Electricity	4,357,439	606,817
Water	7,046,232	685,696
Sewerage	1,098,280	83,556
Refuse	852,795	99,685
Service debtors	55,420,337	2,393,357
	71,457,288	3,899,133
Less: Provision for debt impairment		
Rates	(2,679,506)	-
Electricity	(3,201,909)	-
Water	(5,470,911)	-
Sewerage	(841,246)	-
Refuse	(655,572)	-
Service debtors	(43,240,079)	-
	(56,089,223)	-
Net balance		
Rates	2,699	30,022
Electricity	1,155,530	606,817
Water	1,575,321	685,696
Sewerage	257,034	83,556
Refuse	197,223	99,685
Other	12,180,258	2,393,357
	15,368,065	3,899,133
Rates		
Current (0 -30 days)	182,295	-
31 - 60 days	180,974	-
61 - 90 days	178,386	-
91 - 120 days	174,807	-
121 + days	1,965,743	30,022
Less impairment	(2,679,506)	-
	2,699	30,022

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11. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	296,098	253,885
31 - 60 days	395,903	50
61 - 90 days	264,204	22,778
91 - 120 days	292,523	20,035
121 + days	3,108,711	310,069
Less impairment	(3,201,909)	-
	1,155,530	606,817
Water		
Current (0 -30 days)	638,096	159,628
31 - 60 days	456,571	12,216
61 - 90 days	580,185	3,941
91 - 120 days	545,959	6,354
121 + days	4,825,421	503,557
Less impairment	(5,470,911)	-
	1,575,321	685,696
Sewerage		
Current (0 -30 days)	106,434	-
31 - 60 days	103,571	-
61 - 90 days	101,078	-
91 - 120 days	99,897	-
121 + days	687,300	83,556
Less impairment	(841,246)	-
	257,034	83,556
Refuse		
Current (0 -30 days)	76,698	64,651
31 - 60 days	75,232	5,234
61 - 90 days	73,389	3,837
91 - 120 days	72,367	3,188
121 + days	555,109	22,775
Less impairment	(655,572)	-
	197,223	99,685
Other (specify)		
Current (0 -30 days)	4,152	16,406
31 - 60 days	4,152	913,710
61 - 90 days	4,152	10,991
91 - 120 days	4,152	6,186
121+ days	55,403,729	1,446,064
Less impairment	(43,240,079)	-
	12,180,258	2,393,357
Reconciliation of debt impairment provision		
Contributions to provision	(56,089,223)	-

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Allowance for impairment of consumer debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the allowance for bad debt.

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11. Consumer debtors (continued)

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	12,336,512	1,044,341
Short-term deposits	2,000,596	18,882,596
Bank overdraft	-	(5,553,273)
	14,337,108	14,373,664
Current assets	14,337,108	19,926,937
Current liabilities	-	(5,553,273)
	14,337,108	14,373,664

The municipality had the following bank accounts

Account description / number	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
Primary Bank Account ABSA Bank Limited - Current account - 4054 38 5292	-	1,959,563	8,447,514	12,172,788	1,959,563	8,447,514
Call Investment Deposits ABSA Bank Limited - 32 Day Notice Deposit - 90 9988 9345	1,987,252	1,923,619	1,855,903	1,987,252	1,923,619	1,855,903
ABSA Bank Limited - Call Deposit - 90 9268 8429	3,159	4,732,356	6,519,398	3,159	4,732,356	6,519,398
ABSA Bank Limited - Call Deposit - 91 5245 5805	2,276	1,954,389	1,887,834	2,276	1,954,389	1,887,834
Standard Bank - Call Deposit - 54 8529973 001	-	-	4,590	-	-	4,590
Standard Bank - Call Deposit - 54 8529973 002	4,714	5,271,232	5,183,165	4,714	5,271,232	5,183,165
First National Bank - Call Deposit - 62 2471 177 09	3,194	5,001,000	5,187,276	3,194	5,001,000	5,187,276
Total	2,000,595	20,842,159	29,085,680	14,173,383	20,842,159	29,085,680

13. Other financial liabilities

Held at amortised cost

Annuity loans	3,162,248	3,423,985
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Annuity loans are not secured.

The annuity loan is repayable over a period of 8 years and at a fixed yearly interest rate of 1% per annum, daily .

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Figures to the nearest R1	2012	2011
13. Other financial liabilities (continued)		
Refer to Appendix A for more detail on long term loans.		
Non-current liabilities		
At amortised cost	2,603,010	3,146,534
Current liabilities		
At amortised cost	559,238	277,451
	3,162,248	3,423,985

14. Finance lease obligation

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

Interest rates are fixed at the contract date. All leases have fixed repayments and include additional charges for contingent rent based on a percentage of sales.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Finance Management Grant	-	437,188
Municipal Infrastructural Grant	21,033,747	13,020,043
Municipal System Improvement Grant	-	174,540
Library Grant	72,565	289,540
Rural Household Infrastructure Grant	4,707,164	6,551,214
ACIP sanitation	201,920	3,054,466
Expanded Public Works Program	2,379,301	-
	28,394,697	23,526,991

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited.

See note 22 for reconciliation of grants from National/Provincial Government.

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Annual Financial Statements for the year ended 30 June 2012

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16. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Restructuring	762,829	225,334	988,163
Landfill site provision	1,217,860	25,816	1,243,676
Long service award provision	353,675	165,599	519,274
Leave provision	1,106,651	561,299	1,667,950
	3,441,015	978,048	4,419,063

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Total
13th Cheque provision	-	762,829	-	762,829
Landfill site provision	-	1,217,860	-	1,217,860
Performance bonus provision	-	353,675	-	353,675
Leave accrual	1,464,512	-	(357,861)	1,106,651
	1,464,512	2,334,364	(357,861)	3,441,015

17. Payables from exchange transactions

Trade payables	11,629,386	846,162
Debtors with credit balances	3,716,689	-
Accrued interest	11,713,946	11,703,429
Accruals	35,202,181	-
Deposits received	400	-
Other payables	32,034,770	2,819
Sundry deposits	668,935	-
	94,966,307	12,552,410

18. Consumer deposits

19. Revenue

Property rates	3,116,338	-
Service charges	12,648,054	-
Rental of facilities and equipment	37,015	-
Public contributions and donations	-	78,500
Government grants and subsidies	125,049,891	98,228,760
	140,851,298	98,307,260

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	12,648,054	-
Rental of facilities and equipment	37,015	-
	12,685,069	-

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Figures to the nearest R1	2012	2011
19. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Rendering of Services & Other revenue		
Property rates	3,116,338	-
Public contributions and donations	-	78,500
Transfer revenue		
Government grants and Subsidies	125,049,891	98,228,760
	128,166,229	98,307,260
20. Property rates		
Rates received		
Residential	(285,515)	-
Commercial	229,328	-
Agricultural	29,856,687	-
Less: Income forgone	(26,684,162)	-
	3,116,338	-
21. Service charges		
Sale of electricity	7,467,223	-
Sale of water	6,295,041	-
Solid waste	729,310	-
Sewerage and sanitation charges	(1,843,520)	-
	12,648,054	-
22. Government grants and subsidies		
Equitable share	54,260,000	47,482,892
Municipal Systems Improvements Grant (MSIG)	964,540	1,264,041
Finance Management Grant (FMG)	1,887,188	999,085
Municipal Infrastructural Grant (MIG)	33,114,296	29,798,587
Library Grant	683,975	722,220
Water Operation and Subsidy Grant	1,307,914	3,680,764
Water service subsidy	-	1,307,914
Expanded Public Works Program	392,692	-
Rural Household Infrastructure Grant	5,235,402	4,927,046
ACIP sanitation	27,203,884	8,046,211
	125,049,891	98,228,760

Equitable Share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

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22. Government grants and subsidies (continued)

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	174,540	688,581
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(964,540)	(1,264,041)
	-	174,540

This grant was used to assist in building capacity in the district and local municipalities to ensure that the new developmental system of local government is fully implemented.

Finance Management Grant (FMG)

Balance unspent at beginning of year	437,188	236,273
Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	(1,887,188)	(999,085)
	-	437,188

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Municipal Infrastructural Grant (MIG)

Balance unspent at beginning of year	13,020,043	17,880,630
Current-year receipts	41,128,000	24,938,000
Conditions met - transferred to revenue	(33,114,296)	(29,798,587)
	21,033,747	13,020,043

MIG is a conditional grant that was established to address national priorities regarding municipal infrastructure that may not be realised through unconditional grants such as equitable share. Among other conditions no MIG funds may be spent outside the framework of the municipality's pre-existing Integrated Development Plan and its approved budget.

Library Grant

Balance unspent at beginning of year	289,540	1,011,760
Current-year receipts	467,000	-
Conditions met - transferred to revenue	(683,975)	(722,220)
	72,565	289,540

This grant is used for the improvement of the social welfare of the community.

Water Operation and Subsidy Grant

Balance unspent at beginning of year	-	(471,236)
Current-year receipts	3,875,000	4,152,000
Conditions met - transferred to revenue	(3,875,000)	(3,680,764)
	-	-

The grant is used for basic water services meaning Basic Water Supply Facilities/ or Basic Sanitation Facilities as defined in the Strategic Framework for Water Services, approved by Cabinet September 2003.

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Figures to the nearest R1	2012	2011
22. Government grants and subsidies (continued)		
Water Services Subsidy		
Current-year receipts	-	1,307,914
Conditions met - transferred to revenue	-	(1,307,914)
	-	-
The subsidy is utilised to ensure access to water for all residents in the municipal area.		
Proclaimed Roads Subsidy		
Current-year receipts	-	3,258,310
Conditions met - transferred to revenue	-	(3,258,310)
	-	-
The subsidy is utilised to upgrade the provincial road network in the municipal area.		
Rural Household Infrastructure Grant		
Balance unspent at beginning of year	6,551,214	1,552,252
Current-year receipts	3,391,352	9,926,008
Conditions met - transferred to revenue	(5,235,402)	(4,927,046)
	4,707,164	6,551,214
Conditions still to be met - remain liabilities (see note 15).		
Provide explanations of conditions still to be met and other relevant information.		
ACIP Water and Sanitation		
Balance unspent at beginning of year	3,054,466	2,659,699
Current-year receipts	24,351,338	8,440,978
Conditions met - transferred to revenue	(27,203,884)	(8,046,211)
	201,920	3,054,466
Conditions still to be met - remain liabilities (see note 15).		
Provide explanations of conditions still to be met and other relevant information.		
23. Public contributions and donations		
Public contributions and donations	-	78,500

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Notes to the Annual Financial Statements

Figures to the nearest R1	2012	2011
24. Other income		
Admin charges	5,480,364	-
Bargaining council	7,091	-
Cemetery fees	90	-
Connection fees	83,822	96,171
Grading fees	2,603	-
Insurance claims received	2,930	-
Medical aid	852,893	-
Miscellaneous income	16,979,670	119,396
Photocopies	4,417	-
Rental income	-	29,598
Sale of Pre-paid water	(43)	14,790
Telephone cost reclaimed	16,224	14,568
Tender documents	21,350	23,550
	23,451,411	298,073
25. General expenses		
Advertising	913,451	507,611
Auditors remuneration	1,644,392	915,731
Bank charges	183,529	85,220
Bursaries	-	13,080
Capacity buildings	591,747	337,624
Cemeteries	-	253,603
Chemicals	7,099	-
Cleaning	169,914	83,194
Commission paid	72,917	-
Community development and training	4,060,190	437,585
Community participation	1,316,489	742,572
Computer expenses	55,631	36,812
Conferences and seminars	28,996	48,678
Consulting and professional fees	5,592,340	657,019
Departmental expenses	2,081,020	-
Disaster assistance	160,660	226,399
Electricity consumption	-	1,109,403
Entertainment	1,027,814	275,781
Fuel and oil	4,601,653	2,947,128
Indigent subsidies	1,695,975	3,630,290
Insurance	640,565	695,047
Lease rentals on operating lease	19,369	-
Magazines, books and periodicals	237,141	82,305
Motor vehicle expenses	806,823	23,812
Name branding	338,613	1,158,224
Postage and courier	2,951	3,791
Printing and stationery	844	960
Pump operation cost	1,672,479	1,131,220
Security	416,311	346,507
Small, medium and micro enterprises support	505,146	119,060
Sports, arts and culture	-	11,043
Stores and materials	4,139,709	17,189
Subscriptions and membership fees	535,520	102,846
Telephone and fax	2,823,947	1,285,331
Training	54,505	24,123
Travel and subsistence	2,273,191	1,614,010
Uniforms	26,280	16,555
Ward committee expenses	548,597	279,264
	39,245,808	19,219,017

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26. Employee related costs

Basic	20,602,739	11,315,442
Bonus	-	683,744
Medical aid contributions	2,043,108	1,122,602
Unemployment Insurance Fund	244,455	109,172
Skills Development Levy	970,536	232,793
Leave pay provision charge	1,667,950	1,255,463
Post-employment benefits - Pension Fund Contributions	2,723,178	1,681,239
Overtime	1,756,487	879,455
Long-service awards	165,599	353,675
13th Cheques	225,334	762,829
Transport allowance	4,959,210	2,634,713
Housing benefits and allowances	-	399,174
Standby allowances	833,171	-
Non-Pensionable allowances	8,689	5,251
Cellphone allowance	-	301,271
	36,200,456	21,736,823

Remuneration of municipal manager

Remuneration	187,500	302,879
Housing subsidy	-	17,000
Medical aid contributions	-	47,574
Transport allowance	107,500	217,667
Other	17,500	27,503
UIF contributions	-	1,497
Industrial Council Levy contributions	-	49
	312,500	614,169

Mr T.M. Bloom was appointed as municipal manager on 2 February 2012, he was still the active municipal manager on year end.

Remuneration of chief finance officer

Remuneration	30,000	188,299
Housing subsidy	-	41,000
Medical aid contributions	-	41,034
Transport allowance	15,000	169,849
Pension fund contributions	-	85,394
Other	5,000	19,186
UIF contributions	-	1,497
Industrial Council Levy contributions	-	49
	50,000	546,308

Mrs. B.D..Mothaping was appointed as chief financial officer on 1 June 2012, she was still the active chief financial officer on year end.

27. Remuneration of councillors

Councillors	9,283,987	4,834,018
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28. Administrative expenditure

Administration and management fees - third party	2,121	-
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Annual Financial Statements for the year ended 30 June 2012

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Figures to the nearest R1	2012	2011
29. Debt impairment		
Debt impairment	56,089,223	-
30. Investment revenue		
Interest revenue		
Current accounts	319,206	893,107
Interest charged on trade and other receivables	984,014	-
	1,303,220	893,107
31. Depreciation and amortisation		
Property, plant and equipment	67,951,325	67,916,624
Intangible assets	2,508	7,102
	67,953,833	67,923,726
32. Impairment of assets		
Impairments		
Property, plant and equipment	121,780	-
33. Finance costs		
Finance leases	-	124,164
Current borrowings	1,395,081	342,969
Other interest paid	25,870	-
	1,420,951	467,133
34. Auditors' remuneration		
Fees	1,644,392	915,731
35. Rental of facilities and equipment		
Premises		
Premises	2,347	-
Facilities and equipment		
Rental of facilities	34,668	-
	37,015	-
36. Grants and subsidies paid		
Grants and subsidies paid	75,523,999	31,234,656
37. Bulk purchases		
Electricity	3,539,984	-
Water	2,779,805	-
	6,319,789	-

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37. Bulk purchases (continued)		
Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Rand Water.		
38. Cash (used in) generated from operations		
Deficit	(132,275,768)	(52,375,412)
Adjustments for:		
Depreciation and amortisation	67,953,833	67,923,726
Finance costs	-	124,164
Impairment provision	121,780	-
Debt impairment	56,089,223	-
Movements in provisions	978,048	1,976,503
Changes in working capital:		
Inventories	63,965	(711,068)
Receivables from exchange transactions	(10,582,963)	988,341
Other debtors	-	51,664
Consumer debtors	(76,365,944)	(3,652,727)
VAT receivable	(1,372,592)	(7,989,327)
Payables from exchange transactions	82,413,901	7,048,583
Unspent conditional grants and receipts	4,867,706	56,248
	(8,108,811)	13,440,695
39. Going concern		
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.		
40. Fruitless and wasteful expenditure		
Add: Irregular Expenditure - current year	324,679	-